

BAY-ARENAC ISD
BAY CITY, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2007

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Independent Auditors' Report

October 9, 2007

To the Board of Education
Bay-Arenac ISD
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac ISD as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bay-Arenac ISD's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac ISD as of June 30, 2007, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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To the Board of Education
Bay-Arenac ISD
October 9, 2007
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2007, on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac ISD's basic financial statements. The combining nonmajor funds financial statements, debt schedules and schedule of expenditures of federal awards are presented for purposes of additional analysis and as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and are not a required part of the basic financial statements. The individual nonmajor fund financial statements, debt schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

Our discussion and analysis of the Bay-Arenac ISD's (school district) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2007.

Financial Highlights

Total revenues for the year were \$33 million. Program revenues accounted for \$13 million or 39% of total revenues, and general revenues accounted for \$20 million or 61%. The School District's net assets decreased by \$640,000.

The General Fund reported a positive fund balance of approximately \$2.9 million. Fund balance increased \$466,000 this year. The Special Education Fund reported a positive fund balance of approximately \$3.3 million. Fund balance decreased \$2 million this year. The Vocational Education Fund reported a positive fund balance of approximately \$4.3 million. Fund balance increased \$433,000 this year.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Bay-Arenac ISD financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund, Special Education Fund and the Vocational Education Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General, Special Education and Vocational Education Funds (Required Supplemental Information)

Other Supplemental Information

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

Reporting the School District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the School District's finances is, "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net assets as a way to measure the School District's financial position. The change in net assets provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School District.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

Fiduciary Funds

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate Statement of Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

District-wide Financial Analysis

The statement of net assets provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net assets as of June 30, 2007 and 2006:

	<u>Governmental Activities</u>	
Exhibit A	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 13,500,875	\$ 14,276,341
Capital assets - net of accumulated depreciation	<u>9,054,361</u>	<u>8,559,830</u>
Total assets	<u>22,555,236</u>	<u>22,836,171</u>
Liabilities		
Current liabilities	3,227,982	1,918,845
Long-term liabilities	<u>965,027</u>	<u>984,498</u>
Total liabilities	<u>4,193,009</u>	<u>2,903,343</u>
Net Assets		
Invested in property and equipment - net of related debt	8,176,320	7,548,076
Unrestricted	<u>10,185,907</u>	<u>12,384,752</u>
Total net assets	<u><u>\$ 18,362,227</u></u>	<u><u>\$ 19,932,828</u></u>

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

The analysis, on the previous page, focuses on net assets (see Exhibit A). The School District's net assets were \$18.4 million at June 30, 2007. Capital assets, net of related debt, totaling \$8.2 million compares the original costs, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets.

The \$10.2 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Education and Vocational Education Funds will have a significant impact on the change in unrestricted net assets from year to year.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B shows a summary of the changes in net assets for the years ended June 30, 2007 and 2006:

Exhibit B	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 2,152,864	\$ 2,111,998
Grants and categoricals	10,436,189	11,009,536
General revenue:		
Property taxes	16,929,217	16,288,929
State aid	2,025,717	2,431,838
Other	755,868	1,440,233
Total revenue	<u>32,299,855</u>	<u>33,282,534</u>
Function/Program Expenses		
Instruction	13,884,207	12,526,008
Support services	18,090,307	16,516,281
Community services	440,103	493,643
Interest on long-term debt	2,198	50,721
Depreciation (unallocated)	523,497	511,667
Total expenses	<u>32,940,312</u>	<u>30,098,320</u>
	(640,457)	3,184,214
Less prior period adjustment	<u>0</u>	<u>(930,144)</u>
Increase (Decrease) in Net Assets	<u>\$ (640,457)</u>	<u>\$ 2,254,070</u>

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$32.9 million. Certain activities were partially funded from those who benefited from the programs, \$2.2 million, or by the other governments and organizations that subsidized certain programs with grants and categoricals \$10.4 million. We paid for the remaining "public benefit" portion of our governmental activities with \$16.9 million in taxes, \$2 million in State aid, and \$756,000 with our other revenues, such as interest and general entitlements. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The decrease in assets is attributable to the Special Education Fund. Over 20 staff members have been transferred back from local districts in the past few years. At the same time the state changed the revenue calculation methodology, thereby eliminating any opportunity to increase revenue. Immediate steps have been taken to eliminate the \$2 million Special Education Fund deficit.

The School District's Funds

The School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The School District's governmental funds reported a combined fund balance of \$10.4 million, which is below last year's total of \$11.6 million. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	<u>Fund Balance</u> <u>June 30, 2007</u>	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 2,933,368	\$ 2,467,603	\$ 465,765
Special Education	3,276,076	5,306,628	(2,030,552)
Vocational Education	4,317,201	3,884,388	432,813
Capital Projects	(135,592)	0	(135,592)
Debt	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 10,391,053</u>	<u>\$ 11,658,619</u>	<u>\$ (1,267,566)</u>

- The main functions of the General Fund are focused first and foremost on student achievement. Content teams, representing each local school district within Bay-Arenac ISD's boundaries, review and design curriculum which is aligned to the Michigan Curriculum Frameworks according to a plan developed by the School District's curriculum council. Support services and buildings are available to districts to assist with the implementation of curriculum at individual sites.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

Bay-Arenac ISD develops relevant, comprehensive, and timely professional development to benefit all area administrators and teachers. Presenters include respected experts who address a variety of learning styles and share their best practice

The technology expertise provided by Bay-Arenac ISD is channeled to support technology integration throughout the curriculum at all levels.

The revenue for the General Fund was \$3.5 million. This is less than 1% different than the original budget. Total expenditures were \$4.6 million for the fiscal year. Expenditures were lower than originally budgeted by 3.6%. Other financing sources (uses) were higher than originally budgeted. Together these positive variances account for the increase in fund balance.

- The Special Education Fund at Bay-Arenac ISD utilizes resources to ensure meaningful learning opportunities for students with special needs. Our staff is committed to innovative and compassionate instruction for students within the Bay-Arenac ISD service areas.

The revenue for the Special Education Fund was \$18 million. This is less than originally anticipated by a small margin. Actual tax revenues came in a small amount higher than anticipated. As always not all federal monies were expended and this resulted in not all federal revenue being recognized. The expenditures and other financing for the special education fund was \$20.2 million. The expenditures were in line with original expectations. The funds distributed to local school districts were much higher than estimated.

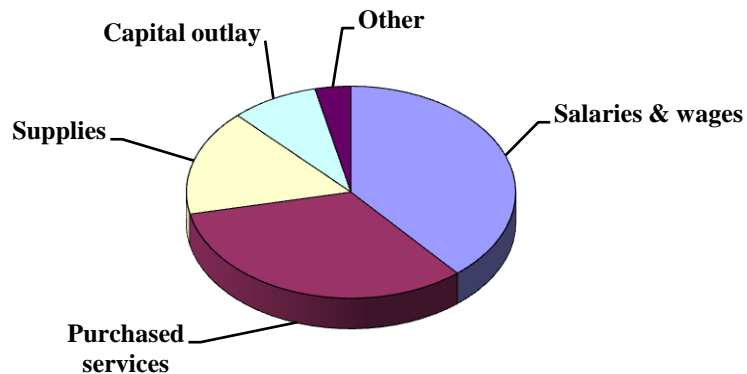
- The Vocational Education Fund offers a wide variety of experiences and specific technical training that gives students an advantage when entering the work force or college. Students enrolled in programs at the Career Center or in any of the four off-site classroom locations may earn industry-standard certifications and college credit. The Vocational Education Fund also offers opportunity to the adult workforce in our community. This includes training/re-training for needed career skills and for personal development.

The revenues for the Vocational Education Fund were \$8.7 million.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

The expenditures and other financing for the Vocational Education Fund are \$8.6 million. These amounts are both in line with initial estimates. The only noteworthy changes during the year related to a transfer of \$300,000 to the capital improvement fund.

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.

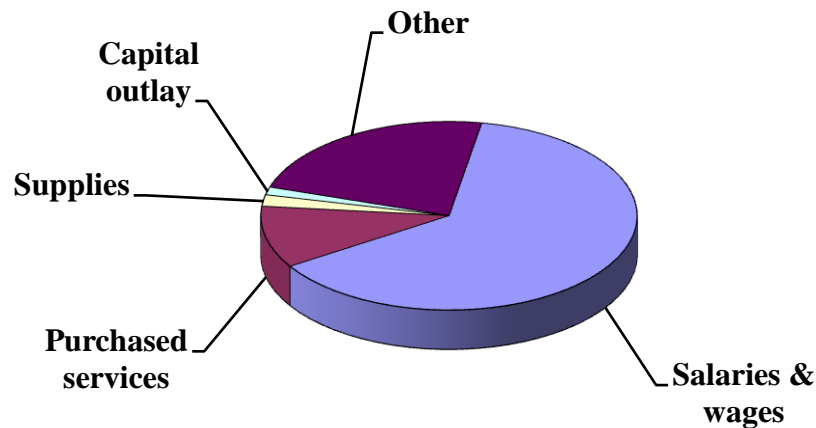


	2007
<i>Expenditures by Object</i>	
Salaries and benefits	\$ 1,819,631
Purchased services	1,538,222
Supplies	760,058
Capital outlay	402,667
Other	165,046
Total	<u><u>\$ 4,685,624</u></u>

Programs and services are highly dependent on funding other than tax revenue in the General Fund. While revenues from the state increased in 2006-07 there continue to be expenditure restrictions. Combined with many program redesigns, the General Fund has built in cost containment. In addition, more and more contracts are being used to supplement employee activity. Expect this trend to continue in the future.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

As the graph below illustrates, the largest portions of the Special Education Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization. The Special Education Fund also reflects a large "other" category. This is comprised almost entirely of transfers out to local school districts in an effort to offset their special education costs.

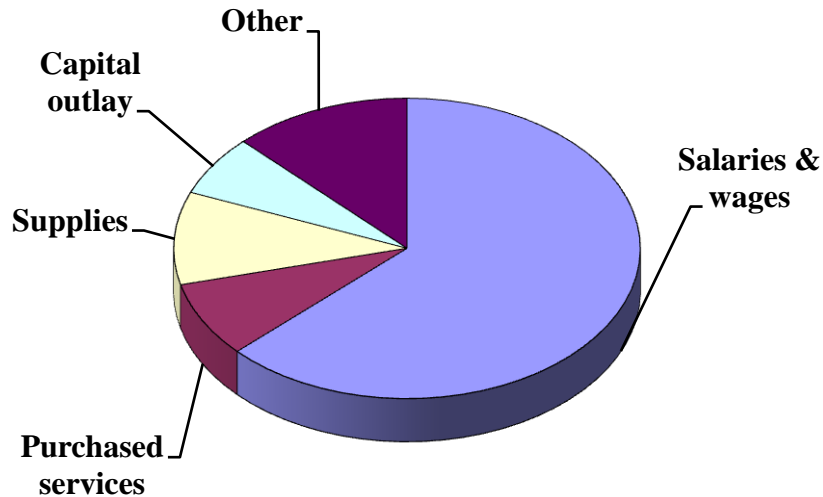


	<u>2007</u>
<i>Expenditures by Object</i>	
Salaries and benefits	\$ 12,757,696
Purchased services	2,142,876
Supplies	396,069
Capital outlay	272,596
Other	<u>4,615,296</u>
 Total	 <u><u>\$ 20,184,533</u></u>

There is steady growth in the population requiring special services. The ISD is also taking back itinerant staff members from our local districts. This is a great financial benefit to our LEAs but increases the total expenditures of the ISD. During 2006-07, an emotionally impaired classroom was added.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

As the graph below illustrates, the largest portions of Vocational Education Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



	<u>2007</u>
<i>Expenditures by Object</i>	
Salaries and benefits	\$ 5,421,138
Purchased services	699,553
Supplies	860,474
Capital outlay	561,731
Other	1,067,143
	<hr/>
Total	<u><u>\$ 8,610,039</u></u>

No new programs or services were initiated during the year. With the modest growth in revenues, the increase in expenditures was built into the budget with no negative impact on fund balance.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

Budgetary Highlights

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. The original budget is developed in January of the preceding fiscal year. For general and special education funds this causes a large variance in budgeting because the grant amounts are not set that far in advance. There is also a great chance that new grants will be added during the course of the year. Added to the normal change and updating of programs, this activity has a notable impact on the annual budget variance. Actual expenditures were less than anticipated due to continued revenue challenges.

Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased during the fiscal year by \$117,118 or about 3%. The overall change was immaterial.
- Budgeted expenditures were also increased during the fiscal year by \$579,051 or 12%. The overall change of 12% relates to projected changes in programs. Actual expenditures remained less than the original budget..
- Actual expenditures were \$752,128 or about 14% under budgeted expenditures.

Changes to the Special Education Fund original budget were as follows:

- Budgeted revenues were increased \$406,640, or 2%, during the fiscal year. The overall change was immaterial.
- Budgeted expenditures were increased \$848,837, or 5.5%, during the fiscal year. The overall change was immaterial.
- Actual expenditures were \$715,000 or about 4% under budgeted expenditures.

Changes to the Vocational Education Fund original budget were as follows:

- Budgeted revenues were increased \$1,909 or 0.1% during the fiscal year. The overall change was immaterial.
- Budgeted expenditures were decreased \$51,459 or about 1%. The overall change was immaterial.
- Actual expenditures were \$895,944 or about 11% under budgeted expenditures.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

Capital Assets

At June 30, 2007, the School District had \$9 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents an increase (including additions and disposals) of approximately \$495,000, or 5.8%, from last year.

	<u>2007</u>	<u>2006</u>
Land and construction in progress	\$ 494,326	\$ 52,461
Buildings	13,576,313	13,339,590
Furniture and equipment	<u>3,939,484</u>	<u>3,810,209</u>
 Total capital assets	 18,010,123	 17,202,260
 Less accumulated depreciation	 <u>8,955,762</u>	 <u>8,642,430</u>
 Net capital assets	 <u><u>\$ 9,054,361</u></u>	 <u><u>\$ 8,559,830</u></u>

This year's additions included equipment, technology, and building renovations.

We anticipate capital additions during 2007-08 to include equipment, technology and building renovations. During 2006-07, Bay-Arenac began an Allied Health wing addition to the Career Center. This addition's estimated cost is \$6.2 million. Approximately \$3.5 million will be financed with a bond issue with the rest coming from fund balance.

BAY-ARENAC ISD
Management's Discussion & Analysis
For the Year Ended June 30, 2007

Debt

At the end of this year, the School District had \$1.1 million in long-term debt outstanding versus \$1.2 million in the previous year – a change of 10.8%. General Obligation Bonds were reduced \$85,000 or 9.13% during the fiscal year. Those bonds consisted of the following:

	<u>2007</u>	<u>2006</u>
GO Technology Bonds	<u>\$ 846,216</u>	<u>\$ 931,216</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit. There was also an addition in the total amount of compensated absences this fiscal year.

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2008 fiscal year budget. The School District continues to be very strong financially even after the prior year adjustment. This strength has given us the ability to weather the funding environment we are currently in. Funding for the General Fund increased slightly during 2006-07. The Special Education Fund continues to experience expenditure growth exceeding revenue growth. Significant changes will be made to address these issues during 2007-08. More than \$2 million is projected to be cut from Special Education expenditures. This represents about a 10% cut. The Vocational Education fund is very solid financially. Several programs will be eliminated or redesigned to provide funding for the new programs that will reside in the new allied health wing

The School District began implementation of the 3-5 year capital improvement program developed during 2005-06. The BAISD will build on its solid infrastructure and equipment base. Much needed upgrades to the ESC will continue during 2007-08. The Career Center will continue building the \$6.2 million Allied Health wing. The wing is scheduled to open in September of 2008.

Requests For Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Office
Bay-Arenac ISD
4228 Two Mile Road
Bay City, MI 48706-2397

BAY-ARENAC ISD
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 10,394,984
Receivables:	
Taxes	18,822
Accounts receivable	477,043
Due from other governmental units	2,035,807
Internal balances	40
Inventories	328,541
Prepaid expenses	245,638
Capital assets less accumulated depreciation of \$8,955,762	<u>9,054,361</u>
 Total assets	 <u>22,555,236</u>
 <u>Liabilities</u>	
Accounts payable	791,192
Accrued payroll and other liabilities	1,828,502
Interest payable	4,013
Deferred revenue	490,128
Long-term liabilities:	
Due within one year	114,147
Due in more than one year	<u>965,027</u>
Total liabilities	<u>4,193,009</u>
 <u>Net Assets</u>	
Investment in capital assets - net of related debt	8,176,320
Unrestricted	<u>10,185,907</u>
 Total net assets	 <u>\$ 18,362,227</u>

See accompanying notes to financial statements.

BAY-ARENAC ISD
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Governmental Activities
		<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental activities:				
Instruction	\$ 13,884,207	\$ 332,192	\$ 2,689,053	\$ (10,862,962)
Support services	18,090,307	1,820,672	7,322,820	(8,946,815)
Community services	440,103	0	424,316	(15,787)
Interest on long-term debt	2,198	0	0	(2,198)
Depreciation (unallocated)	<u>523,497</u>	<u>0</u>	<u>0</u>	<u>(523,497)</u>
Total governmental activities	<u>\$32,940,312</u>	<u>\$ 2,152,864</u>	<u>\$ 10,436,189</u>	<u>(20,351,259)</u>
General revenues:				
Property taxes, levied for general purposes				16,929,217
State aid not restricted to specific purposes				1,841,211
State aid restricted for debt service				184,506
Interest and investment earnings				626,955
Other				<u>128,913</u>
Total general revenues				<u>19,710,802</u>
Change in net assets				<u>(640,457)</u>
Net assets - beginning of year as previously reported				19,932,828
Prior period adjustment				<u>(930,144)</u>
Net assets - beginning of year as restated				<u>19,002,684</u>
Net assets - end of year				<u>\$ 18,362,227</u>

See accompanying notes to financial statements.

BAY-ARENAC ISD
Governmental Funds
Balance Sheet
June 30, 2007

	General	Special Education	Vocational Education	Other Nonmajor Governmental Funds	Total
<u>Assets</u>					
Cash and investments	\$3,885,219	\$2,883,443	\$3,557,385	\$ 68,937	\$10,394,984
Receivables:					
Taxes	723	10,860	7,239	0	18,822
Accounts receivable	307,004	96,625	73,414	0	477,043
Due from other funds	0	609,170	539,786	0	1,148,956
Due from other governmental units	196,698	1,389,626	449,483	0	2,035,807
Inventories	25,238	0	303,303	0	328,541
Prepaid expenditures	44,077	96,594	104,967	0	245,638
Total assets	<u>\$4,458,959</u>	<u>\$5,086,318</u>	<u>\$5,035,577</u>	<u>\$ 68,937</u>	<u>\$14,649,791</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 86,389	\$ 443,466	\$ 261,337	\$ 0	\$ 791,192
Accrued payroll and other liabilities	6,557	1,366,776	455,169	0	1,828,502
Due to other funds	944,387	0	0	204,529	1,148,916
Deferred revenue	488,258	0	1,870	0	490,128
Total liabilities	<u>1,525,591</u>	<u>1,810,242</u>	<u>718,376</u>	<u>204,529</u>	<u>4,258,738</u>
<u>Fund Balance</u>					
Reserved for inventories and prepaid expenditures	69,315	96,594	408,270	0	574,179
Unreserved/undesignated	<u>2,864,053</u>	<u>3,179,482</u>	<u>3,908,931</u>	<u>(135,592)</u>	<u>9,816,874</u>
Total fund balance (deficit)	<u>2,933,368</u>	<u>3,276,076</u>	<u>4,317,201</u>	<u>(135,592)</u>	<u>10,391,053</u>
Total liabilities and fund balance	<u>\$4,458,959</u>	<u>\$5,086,318</u>	<u>\$5,035,577</u>	<u>\$ 68,937</u>	<u>\$14,649,791</u>

See accompanying notes to financial statements.

BAY-ARENAC ISD
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2007

Total fund balance - governmental funds		\$ 10,391,053
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of the capital assets	\$ 18,010,123	
Accumulated depreciation	<u>(8,955,762)</u>	9,054,361
Accrued interest payable expense used in the governmental activities is not payable from current resources and therefore is not reported in the governmental funds		(4,013)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Bonds, notes and capital leases		(874,028)
Compensated absences		<u>(205,146)</u>
Total net assets - governmental activities		<u><u>\$ 18,362,227</u></u>

See accompanying notes to financial statements.

BAY-ARENAC ISD
Governmental Funds
Statement of Revenue, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2007

	General	Special Education	Vocational Education	Other Nonmajor Governmental Funds	Totals
<u>Revenue</u>					
Local sources:					
Property taxes	\$ 650,082	\$9,768,158	\$6,510,977	\$ 0	\$ 16,929,217
Other	702,178	1,192,017	459,058	0	2,353,253
State sources	1,726,756	2,931,923	804,531	0	5,463,210
Federal sources	392,794	4,090,287	892,882	0	5,375,963
Total revenue	3,471,810	17,982,385	8,667,448	0	30,121,643
<u>Expenditures</u>					
Current:					
Instruction	0	4,869,292	3,968,649	0	8,837,941
Support services	4,311,396	10,512,083	3,703,259	0	18,526,738
Community services	260,464	179,639	0	0	440,103
Capital outlay	0	0	0	435,592	435,592
Debt service:					
Principal	0	0	0	85,000	85,000
Interest	0	0	0	3,956	3,956
Total expenditures	4,571,860	15,561,014	7,671,908	524,548	28,329,330
Excess (deficiency) of revenue over expenditures	(1,100,050)	2,421,371	995,540	(524,548)	1,792,313
<u>Other Financing Sources (Uses)</u>					
Operating transfers in:					
Transfers in from other governmental units	1,679,579	171,596	375,404	0	2,226,579
Transfers in from other funds	0	0	0	388,956	388,956
Operating transfers out:					
Transfers out to other governmental units	(24,808)	(4,623,519)	(638,131)	0	(5,286,458)
Transfers out to other funds	(88,956)	0	(300,000)	0	(388,956)
Total other financing sources (uses)	1,565,815	(4,451,923)	(562,727)	388,956	(3,059,879)
Net change in fund balance	465,765	(2,030,552)	432,813	(135,592)	(1,267,566)
Fund balance - beginning of year	2,467,603	5,940,113	4,181,047	0	12,588,763
Prior period adjustment	0	(633,485)	(296,659)	0	(930,144)
Fund balance - beginning of year (restated)	2,467,603	5,306,628	3,884,388	0	11,658,619
Fund balance (deficit) - end of year	\$2,933,368	\$3,276,076	\$4,317,201	\$ (135,592)	\$10,391,053

See accompanying notes to financial statements.

BAY-ARENAC ISD
Reconciliation of the Statement of Revenue, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balance - total governmental funds	\$ (1,267,566)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(523,497)
Capital outlay	1,066,395
Loss on the disposal of capital assets are are not reported in the governmental funds; they are recorded on the statement of activities in the year they occur	(48,367)
Interest on long-term debt is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	1,758
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	131,956
Increases in compensated absences are reported as an addition to expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	<u>(1,136)</u>
Change in net assets of governmental activities	<u><u>\$ (640,457)</u></u>

See accompanying notes to financial statements.

BAY-ARENAC ISD
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2007

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 16,323</u>
<u>LIABILITIES</u>	
Due to student groups	\$ 16,283
Due to other funds	<u>40</u>
Total liabilities	<u>\$ 16,323</u>

See accompanying notes to financial statements.

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Bay-Arenac ISD (“School District”) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District’s primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Special Education Fund – The Special Education Fund is used to record all transactions associated with special education programs administered by the School District.

Vocational Education Fund – The Vocational Education Fund is used to record all transactions associated with all vocational and Career Center programs administered by the School District.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at cost which approximates market.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds”. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds”.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Furniture and equipment	5-15 years

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Taxes – For Bay-Arenac ISD taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 and/or December 31 of the following year. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

State Aid – The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Bay-Arenac ISD follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 2 – BUDGETS (CONTINUED)

3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General, Special Education and Vocational Education Funds are presented as Required Supplemental Information.

During the year ended June 30, 2007, the School District incurred revenues and expenditures in certain budgetary funds that were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Actual Amount</u>	<u>Budget Variance</u>
General Fund			
Revenues:			
State sources	\$ 1,754,289	\$ 1,726,756	\$ 27,533
Federal sources	508,621	392,794	115,827
Special Education Fund:			
Revenues:			
Other	1,240,349	1,192,017	48,332
Federal sources	4,859,361	4,090,287	769,074
Other Financing Sources:			
Operating transfers in from other governmental units	212,280	171,596	40,684
Operating transfers out to other governmental units	3,964,456	4,623,519	659,063
Vocational Education:			
Revenues:			
Other	685,838	459,058	226,780
State sources	816,965	804,531	12,434
Federal sources	894,293	892,882	1,411
Other Financing Sources:			
Operating transfers in from other governmental units	400,692	375,404	25,288

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 10,394,984</u>	<u>\$ 16,323</u>	<u>\$ 10,411,307</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 10,411,177
Petty cash and cash on hand	<u>130</u>
Total	<u>\$ 10,411,307</u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, \$11,617,882 of the School District's bank balance of \$11,717,882 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 4 – CAPITAL ASSETS

A summary of changes in Governmental capital assets follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Assets not being depreciated:				
Land	\$ 40,000	\$ 0	\$ 0	\$ 40,000
Construction in progress	12,461	444,598	2,733	454,326
Subtotal	52,461	444,598	2,733	494,326
Capital assets being depreciated:				
Buildings and improvements	13,339,590	236,723	0	13,576,313
Furniture and equipment	3,810,209	387,807	258,532	3,939,484
Subtotal	17,149,799	624,530	258,532	17,515,797
Accumulated depreciation:				
Buildings and improvements	5,542,604	405,037	0	5,947,641
Furniture and equipment	3,099,826	118,460	210,165	3,008,121
Subtotal	8,642,430	523,497	210,165	8,955,762
Net capital assets being depreciated	8,507,369	101,033	48,367	8,560,035
Net capital assets	<u>\$ 8,559,830</u>	<u>\$ 545,631</u>	<u>\$ 51,100</u>	<u>\$ 9,054,361</u>

Depreciation for fiscal year ended June 30, 2007 amounted to \$523,497. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

A summary of interfund receivable and payable balances at June 30, 2007 and transfers made during the year ended June 30, 2007 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 944,387	\$ 0	\$ 88,956
Special Revenue:				
Vocational Education	609,170	0	0	300,000
Special Education	539,786	0	0	0
Capital Projects	0	204,529	300,000	0
Debt	0	0	88,956	0
Fiduciary Fund	0	40	0	0
	<u>\$1,148,956</u>	<u>\$ 1,148,956</u>	<u>\$ 388,956</u>	<u>\$ 388,956</u>

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

Transfers are used to reflect funding support for debt service and capital outlay.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2007, consist of taxes, accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State Aid	\$ 708,428
Federal Grants	<u>1,327,379</u>
	<u>\$ 2,035,807</u>

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 7 – DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

NOTE 8 – LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Retirements and Payments	Balance June 30, 2007	Amount Due Within One Year
Bonds	\$ 931,216	\$ 0	\$ 85,000	\$ 846,216	\$ 90,000
Notes payable	46,590	0	21,022	25,568	21,903
Capital leases	28,178	0	25,934	2,244	2,244
Compensated absences	204,010	1,136	0	205,146	0
Total	<u>\$ 1,209,994</u>	<u>\$ 1,136</u>	<u>\$ 131,956</u>	<u>\$ 1,079,174</u>	<u>\$ 114,147</u>

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Bonds and notes payable at June 30, 2007 is comprised of the following issues:

\$2,440,906 Durant Non-Plaintiff serial bonds due in annual installments of \$93,538 to \$299,122 through May 15, 2013; original interest stated at 4.76%	\$ 756,216
\$700,000 1998 Technology bond due in annual installments of \$85,000 to \$90,000 through May 1, 2008, interest at 4.35%	90,000
\$119,723 National City installment note due in monthly installments of \$1,878, including interest through August 2008; interest at 4.10%	<u>25,568</u>
Total Bonds and Notes Payable	<u>\$ 871,784</u>

The Durant Non-Plaintiff bond, including interest, was issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The Durant Non-Plaintiff bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitations. This Bond is payable both as to principal and interest solely from the State Aid payments described above.

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 8 – LONG-TERM DEBT (CONTINUED)

The School District has entered into long-term lease agreements for equipment, which have been classified as capital leases. Depreciation of this equipment is included in depreciation expense. The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2007:

2008	<u>\$ 2,257</u>
Total minimum lease payments	2,257
Amount representing interest	<u>(13)</u>
	<u><u>\$ 2,244</u></u>

Under the terms of the present contracts between the Board of Education of Bay-Arenac ISD and the various employee associations, the School District is contingently liable for unused sick and vacation days. Each employee may accumulate various numbers of sick and vacation days and it must be paid to them upon retirement. At June 30, 2007, a liability of \$205,146 has been recorded in the district-wide financial statements.

The annual requirements to amortize bonds, notes and capital leases outstanding as of June 30, 2007 including interest payments are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 114,147	\$ 4,568	\$ 118,715
2009	106,349	26,905	133,254
2010	299,122	89,555	388,677
2011	112,691	16,875	129,566
2012	118,050	11,509	129,559
2013-2016	<u>123,669</u>	<u>5,888</u>	<u>129,557</u>
	<u><u>\$874,028</u></u>	<u><u>\$ 155,300</u></u>	<u><u>\$ 1,029,328</u></u>

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 9 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10 – DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34% for the period from July 1, 2006 to September 30, 2006 and 17.74% for the period from October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2007, 2006 and 2005 were \$2,266,483, \$1,952,733, and \$1,637,489 respectively.

Postemployment Benefits – Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

BAY-ARENAC ISD
Notes to Financial Statements
For the Year Ended June 30, 2007

NOTE 11 - GRANTS

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

NOTE 12 - PRIOR PERIOD ADJUSTMENT

For the fiscal year ended June 30, 2006, wages and related fringe benefits for contractual employees that were earned (or incurred) in June but paid in July and August were not accrued as a liability at year end. The total amount of omitted expenditures were \$1,155,114 (\$858,455 for the Special Education Fund and \$296,659 for the Vocational Education Fund) In addition, the federal grant revenue associated with the expenditures in the Special Education Fund was not recognized in the amount of \$224,970. A prior period adjustment in the amount of \$930,144 was required at both the fund level and government wide level.

NOTE 13 - SUBSEQUENT EVENT

On August 1, 2007, the School District issued School Building and Site Bonds in the amount of \$3,500,000, bearing interest of four percent. The bonds are issued for the purpose of erecting, furnishing and equipping an addition to and partially remodeling the career center for a health and science occupational wing; acquiring technology for the addition; and developing and improving the site.

NOTE 14 - DEFICIT FUND BALANCE

The School District's Capital Projects Fund reflects a deficit fund balance as a result of having excess expenditures over revenues. This deficit will be eliminated through the receipt of bond proceeds that the School District will collect from the School Building and Site Bonds that were issued on August 1, 2007.

BAY-ARENAC ISD
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual
<u>Revenue</u>			
Local sources:			
Property taxes	\$ 635,039	\$ 637,039	\$ 650,082
Other	488,371	652,756	702,178
State sources	1,447,991	1,754,289	1,726,756
Federal sources	864,186	508,621	392,794
	<u>3,435,587</u>	<u>3,552,705</u>	<u>3,471,810</u>
<u>Expenditures</u>			
Support services:			
Pupil	474,394	330,758	238,866
Instructional staff	2,118,381	2,697,391	2,292,627
General administration	158,894	182,454	175,041
Business services	504,851	593,506	563,728
Operation and maintenance	315,340	330,538	296,205
Other	773,121	877,873	744,929
Community services	399,956	311,468	260,464
	<u>4,744,937</u>	<u>5,323,988</u>	<u>4,571,860</u>
Excess (deficiency) of revenue over expenditures	<u>(1,309,350)</u>	<u>(1,771,283)</u>	<u>(1,100,050)</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in from other governmental units	1,487,787	1,869,239	1,679,579
Operating transfers out:			
Transfers out to other governmental units	(156,538)	(128,309)	(24,808)
Transfers out to other funds	(88,956)	(88,956)	(88,956)
	<u>1,242,293</u>	<u>1,651,974</u>	<u>1,565,815</u>
Net change in fund balance	(67,057)	(119,309)	465,765
Fund balance - beginning of year	<u>2,467,603</u>	<u>2,467,603</u>	<u>2,467,603</u>
Fund balance - end of year	<u>\$2,400,546</u>	<u>\$ 2,348,294</u>	<u>\$2,933,368</u>

BAY-ARENAC ISD
Required Supplemental Information
Budgetary Comparison Schedule - Special Education Fund
For the Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual
<u>Revenue</u>			
Local sources:			
Property taxes	\$ 9,535,579	\$ 9,565,579	\$ 9,768,158
Other	1,140,994	1,240,349	1,192,017
State sources	2,549,653	2,878,087	2,931,923
Federal sources	4,910,510	4,859,361	4,090,287
	<u>18,136,736</u>	<u>18,543,376</u>	<u>17,982,385</u>
Total revenue			
<u>Expenditures</u>			
Instruction:			
Basic programs	4,581,153	5,073,615	4,869,292
Support services:			
Pupil	7,156,532	7,324,316	7,177,473
Instructional staff	1,437,073	1,453,894	1,338,138
General administration	96,862	145,844	143,059
Business services	347,279	398,497	381,556
Operation and maintenance	410,502	497,246	419,594
Transportation	538,896	549,990	500,289
Other	715,762	615,576	551,974
Community services	143,118	217,036	179,639
	<u>15,427,177</u>	<u>16,276,014</u>	<u>15,561,014</u>
Total expenditures			
Excess (deficiency) of revenue over expenditures	<u>2,709,559</u>	<u>2,267,362</u>	<u>2,421,371</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in from other governmental units	78,875	212,280	171,596
Operating transfers out to other governmental units	(3,910,809)	(3,964,456)	(4,623,519)
	<u>(3,831,934)</u>	<u>(3,752,176)</u>	<u>(4,451,923)</u>
Total other financing sources (uses)			
Net change in fund balance	<u>(1,122,375)</u>	<u>(1,484,814)</u>	<u>(2,030,552)</u>
Fund balance - beginning of year	5,940,113	5,940,113	5,940,113
Prior period adjustment	(633,485)	(633,485)	(633,485)
Fund balance - beginning of year (restated)	<u>5,306,628</u>	<u>5,306,628</u>	<u>5,306,628</u>
Fund balance - end of year	<u>\$ 4,184,253</u>	<u>\$ 3,821,814</u>	<u>\$ 3,276,076</u>

BAY-ARENAC ISD
Required Supplemental Information
Budgetary Comparison Schedule - Vocational Education Fund
For the Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual
<u>Revenue</u>			
Local sources:			
Property taxes	\$ 6,357,944	\$ 6,378,944	\$ 6,510,977
Other	802,993	685,838	459,058
State sources	718,901	816,965	804,531
Federal sources	894,293	894,293	892,882
	<u>8,774,131</u>	<u>8,776,040</u>	<u>8,667,448</u>
<u>Expenditures</u>			
Instruction:			
Basic programs	4,424,619	4,397,762	3,968,649
Support services:			
Pupil	1,039,932	1,065,780	994,678
Instructional staff	102,557	102,557	97,835
General administration	100,173	114,479	108,870
School administration	899,438	923,081	886,405
Business services	180,735	238,922	224,237
Operations and maintenance	995,439	1,023,623	957,365
Transportation	38,000	47,000	33,865
Other	838,418	654,648	400,004
	<u>8,619,311</u>	<u>8,567,852</u>	<u>7,671,908</u>
Excess (deficiency) of revenue over expenditures	<u>154,820</u>	<u>208,188</u>	<u>995,540</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers in from other governmental units	389,211	400,692	375,404
Operating transfers out:			
Transfers out to other governmental units	(640,111)	(638,131)	(638,131)
Transfers out to other funds	0	(300,000)	(300,000)
	<u>(250,900)</u>	<u>(537,439)</u>	<u>(562,727)</u>
Net change in fund balance	<u>(96,080)</u>	<u>(329,251)</u>	<u>432,813</u>
Fund balance - beginning of year	4,181,047	4,181,047	4,181,047
Prior period adjustment	(296,659)	(296,659)	(296,659)
Fund balance - beginning of year (restated)	<u>3,884,388</u>	<u>3,884,388</u>	<u>3,884,388</u>
Fund balance - end of year	<u>\$ 3,788,308</u>	<u>\$ 3,555,137</u>	<u>\$ 4,317,201</u>

BAY-ARENAC ISD
Other Supplemental Information
Combining Statement of Revenue, Expenditures
and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	1998 Technology Bonds	1998 Durant Bonds	Capital Projects Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Revenue</u>				
State aid	\$ 0	\$ 0	\$ 0	\$ 0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Expenditures</u>				
Capital outlay	0	0	435,592	435,592
Debt service:				
Bond principal	85,000	0	0	85,000
Interest and other	3,956	0	0	3,956
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	88,956	0	435,592	524,548
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Excess (deficiency) of revenue over expenditures	(88,956)	0	(435,592)	(524,548)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Other Financing Sources (Uses)</u>				
Transfers in from other funds	88,956	0	300,000	388,956
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net change in fund balance	0	0	(135,592)	(135,592)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balance - beginning of year	0	0	0	0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balance (deficit)- end of year	\$ 0	\$ 0	\$ (135,592)	\$(135,592)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

<u>DATE OF ISSUE</u>	September 15, 1998		
<u>AMOUNT OF ISSUE</u>			\$ 700,000
<u>AMOUNT OF RETIRED</u>			
	During prior years	\$ 525,000	
	During current year	<u>85,000</u>	<u>610,000</u>
<u>BALANCE OUTSTANDING - June 30, 2007</u>			<u>\$ 90,000</u>

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BAY-ARENAC ISD
Other Supplemental Information
Schedule of Indebtedness - 1998 School Improvement Bonds
For the Year Ended June 30, 2007

DATE OF ISSUE November 24, 1998

AMOUNT OF ISSUE \$ 1,845,060

<u>AMOUNT OF RETIRED</u>	During prior years	\$ 1,088,844	
	During current year	<u>0</u>	<u>1,088,844</u>

<u>BALANCE OUTSTANDING - June 30, 2007</u>		<u>\$ 756,216</u>
--	--	-------------------

<u>Fiscal Year</u>	<u>Requirements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 0	\$ 0	\$ 0
2009	102,684	26,886	129,570
2010	299,122	89,555	388,677
2011	112,691	16,875	129,566
2012	118,050	11,509	129,559
2013	<u>123,669</u>	<u>5,888</u>	<u>129,557</u>
	<u>\$ 756,216</u>	<u>\$ 150,713</u>	<u>\$ 906,929</u>

BAY-ARENAC ISD
Other Supplemental Information
Schedule of Indebtedness - 2002 Installment Note
For the Year Ended June 30, 2007

DATE OF ISSUE August 28, 2002

AMOUNT OF ISSUE \$ 119,723

<u>AMOUNT OF RETIRED</u>	During prior years	\$ 73,133	
	During current year	<u>21,022</u>	<u>94,155</u>

<u>BALANCE OUTSTANDING - June 30, 2007</u>		<u>\$ 25,568</u>
--	--	------------------

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	4.10%	\$ 21,903	\$ 640	\$ 22,543
2009	4.10%	<u>3,665</u>	<u>19</u>	<u>3,684</u>
		<u>\$ 25,568</u>	<u>\$ 659</u>	<u>\$ 26,227</u>



WEINLANDER FITZHUGH

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October 9, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Bay-Arenac ISD
Bay City, Michigan

We have audited the financial statements of Bay-Arenac ISD as of and for the year ended June 30, 2007, and have issued our report thereon dated October 9, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bay-Arenac ISD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bay-Arenac ISD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bay-Arenac ISD's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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WEINLANDER FITZHUGH

Board of Education
Bay-Arenac ISD
October 9, 2007

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as referenced in 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the School District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described are a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay-Arenac ISD's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh



WEINLANDER FITZHUGH

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October 9, 2007

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Bay-Arenac ISD
Bay City, Michigan

Compliance

We have audited the compliance of Bay-Arenac ISD with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Bay-Arenac ISD's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questionable costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bay-Arenac ISD's management. Our responsibility is to express an opinion on Bay-Arenac ISD's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bay-Arenac ISD's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bay-Arenac ISD's compliance with those requirements.

In our opinion, Bay-Arenac ISD complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the ended June 30, 2007.

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WEINLANDER FITZHUGH

Board of Education
Bay-Arenac ISD
October 9, 2007
Page 2

Internal Control Over Compliance

The management of Bay-Arenac ISD is responsible for establishing and maintaining effective internal control over compliance with the requirement of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bay-Arenac ISD's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control. We did not consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.



WEINLANDER FITZHUGH

Board of Education
Bay-Arenac ISD
October 9, 2007
Page 3

The School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh

BAY-ARENAC ISD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

- Material weakness(es) identified? ☐ YES ☒ NO
- Significant deficiency(ies) identified not considered to be Material weaknesses? ☒ YES ☐ NO

Noncompliance material to financial statements noted? ☐ YES ☒ NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? ☐ YES ☒ NO
- Significant deficiency(ies) identified not considered to be material weaknesses? ☒ YES ☐ NO

Type of auditor's report issued on compliance for major programs: Unqualified opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? ☐ YES ☒ NO

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Handicapped Preschool and School
84.173	Preschool Grant
84.181	Infants and Toddlers

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

BAY-ARENAC ISD
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

SECTION II - Financial Statement Findings

2007-1

Criteria or Specific Requirement

Establishment and maintenance of internal control over the financial reporting process.

Condition

A prior period adjustment was reflected in the current financial statements to record the effect of the non-recognition of salaries and related fringe benefits as well as grant revenues associated with these expenditures.

Criteria

Financial reporting processes should be coordinated and monitored internally to increase the likelihood that misstatements made by an individual will be identified and corrected by other personnel within the School District.

Effect

The effect of this condition is that the financial statements could be misstated.

Recommendation

The School District should implement increased internal monitoring activities of the financial reporting process.

Views of responsible officials and planned corrective actions

Management has increased monitoring activities of interim and the year end reporting process.

SECTION III - Federal Award Findings and Questioned Costs

CFDA 84.027 – Handicapped Preschool and School – 074500607 – (See Section II Finding 2007-01).
CFDA 84.173 – Preschool Grant – 0704600607 – (See Section II Finding 2007-01).

BAY-ARENAC ISD
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor or Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2006	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2007
<u>U. S. Department of Education</u>								
Passed through the Michigan Department of Education:								
Education Deprived Children	84.010							
0517000506		\$ 11,725	\$ 11,725	\$ (237)	\$ 0	\$ (237)	\$ 0	\$ 0
0617000506		32,142	18,931	6,977	(56,946)	20,188	13,211	0
0617000607		56,946	0	0	56,946	27,100	35,575	8,476
0717000607		88,345	0	0	0	9,623	10,833	1,210
			30,656	6,740	0	56,674	59,619	9,686
Handicapped Preschool and School	84.027							
0504500405		3,646,656	404,818	55,710	0	55,710	0	0
0604500506		3,781,482	3,589,401	796,907	0	960,913	192,081	28,075
060490 TS		70,000	70,000	21,038	0	21,038	0	0
0704500607		3,785,300	0	0	0	3,158,849	3,623,533	464,684
070480 EOSD		50,000	0	0	0	50,000	50,000	0
070490 TS		70,000	0	0	0	57,127	70,000	12,873
			4,064,219	873,655	0	4,303,638	3,935,614	505,632
Vocational Ed.-Basic Grants to States	84.048							
0635206012-8		939,805	939,805	407,053	0	407,053	0	0
0735207012-8		886,293	0	0	0	583,090	886,293	303,203
			0	0	0	583,090	886,293	303,203
Preschool Grant	84.173							
0604600506		188,171	171,150	56,135	0	65,422	17,021	7,734
0704600607		185,277	0	0	0	134,553	166,367	31,814
			171,150	56,135	0	199,975	183,388	39,548
Infants and Toddlers	84.181							
061340190		201,869	165,475	38,664	0	75,058	36,394	0
071340190		193,510	0	0	0	119,170	159,861	40,691
			165,475	38,664	0	194,228	196,255	40,691
Safe and Drug Free Schools and Communities	84.186							
0628600506		67,988	67,988	13,674	0	13,674	0	0
0628600607		28,396	0	0	0	28,396	28,396	0
0728600506		82,332	0	0	0	68,728	70,630	1,902
			67,988	13,674	0	110,798	99,026	1,902

See accompanying notes to financial statements.

BAY-ARENAC ISD
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor or Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2006	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2007
Even Start	84.213							
060390D0628CES		225,000	185,208	24,482	0	62,620	38,138	0
			185,208	24,482	0	62,620	38,138	0
Title V LEA Allocation	84.298							
0602500506		63,420	62,701	766	0	1,485	719	0
0702500607		32,560	0	0	0	32,560	32,560	0
			62,701	766	0	34,045	33,279	0
Title II, Part A, Improving Teacher Quality	84.367							
0705200607		751	0	0	0	751	751	0
			0	0	0	751	751	0
Passed through Delta College:								
Carl D Perkins Program, Tech-Prep Education	84.243							
073540-7014-8		6,589	0	0	0	6,589	6,589	0
Passed through Other Educational Agencies:								
Title II	84.318	5,975	4,881	(1,094)	0	1,094	600	(494)
Reading First	84.357	18,657	17,709	(948)	0	948	948	0
		18,567	0	0	0	18,567	18,567	0
			17,709	(948)	0	19,515	19,515	0
Passed through United Way of Bay County								
Parental Information and Resource Centers (PIRC)	84.310							
U310A040006		479,434	335,086	97,142	0	193,020	141,866	45,988
Total U.S. Department of Education			\$ 5,105,073	\$ 1,109,216	\$ 0	\$ 5,766,037	\$ 5,600,933	\$ 946,155

Notes:

Grant awards were adjusted as follows:

Grant 0617000506 was decreased by \$56,946 transferred to 0617000607

See accompanying notes to financial statements.

BAY-ARENAC ISD
Schedule Of Expenditures Of Federal Awards
Provided To Subrecipients
For the Year Ended June 30, 2007

<u>Federal Program Title/Subrecipient</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Amount</u>	<u>Due to Subrecipient July 1, 2006</u>	<u>Subrecipient Federal Expenditures</u>	<u>Current Year Transfer to Subrecipient</u>	<u>Subrecipient Federal Expenditures</u>	<u>Due to Subrecipient June 30, 2007</u>
Title V Innovative Programs AuGres-Sims Schools	0602500506	84.298	\$ 63,420	\$ 0	\$ 0	\$ 566	\$ 566	\$ 0
				0	0	566	566	0
Title V Innovative Programs Arenac Eastern Schools	0702500607	84.298	32,560	0	0	500	500	0
				0	0	500	500	0
Handicapped Preschool and School (IDEA) Bay City Public Schools	0604500506	84.027	3,781,482	0	0	5,335	5,335	0
				0	0	5,335	5,335	0
Handicapped Preschool and School (IDEA) Bangor Township Schools	0701500607	84.027	3,785,300	0	0	35,007	35,007	18,252
Bay City Public Schools				0	0	302,668	302,668	
Pinconning Area Schools				0	0	57,156	57,156	0
				0	0	394,831	394,831	18,252
Preschool Grant Bangor Township Schools	0704600607	84.173	185,277	0	0	13,331	13,331	4,799
Bay City Public Schools				0	0	100,858	100,858	2,172
Pinconning Area Schools				0	0	19,456	19,456	0
				0	0	133,645	133,645	6,971
Handicapped Preschool and School AuGres-Sims Schools	070490 TS	84.027	70,000	0	0	217	217	0
Bangor Township Schools				0	0	1,966	1,966	0
Bay City Public Schools				0	0	6,120	6,120	0
Essexville-Hampton Public Schools				0	0	1,222	1,222	0
Pinconning Area Schools				0	0	1,279	1,279	0
Bay County Public School Academy				0	0	505	505	0
				0	0	11,309	11,309	0

See accompanying notes to financial statements.

BAY-ARENAC ISD
Schedule Of Expenditures Of Federal Awards
Provided To Subrecipients
For the Year Ended June 30, 2007

<u>Federal Program Title/Subrecipient</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Amount</u>	<u>Due to Subrecipient July 1, 2006</u>	<u>Subrecipient Federal Expenditures</u>	<u>Current Year Transfer to Subrecipient</u>	<u>Subrecipient Federal Expenditures</u>	<u>Due to Subrecipient June 30, 2007</u>
Vocational Ed.-Basic Grants to States	0735200607	84.048	\$ 886,293					
Midland County ESA				0	0	112,914	112,914	0
Saginaw City Schools				0	0	512,455	512,455	0
				0	0	625,369	625,369	0
				\$ 0	\$ 0	\$ 1,171,555	\$ 1,171,555	\$ 25,223

See accompanying notes to financial statements.

BAY-ARENAC ISD
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2007

None

BAY-ARENAC ISD
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bay-Arenac ISD and is presented in the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

NOTE 2 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, Bay-Arenac ISD provided federal awards to subrecipients as noted in the Schedule of Expenditures of Federal Awards Provided to subrecipients.

NOTE 3 - RECONCILIATION OF REVENUES REPORTED IN THE BASIC FINANCIAL STATEMENTS WITH EXPENDITURES OF FEDERAL AWARDS

Current year expenditures per Schedule of Expenditures of Federal Awards	\$5,600,933
Subtract:	
Prior period adjustment:	
Handicapped Preschool and School, CFDA 84.027	(222,478)
Preschool Grant, CFDA 84.173	<u>(2,492)</u>
Total revenues from federal sources per audit report	<u>\$5,375,963</u>

NOTE 4 - OTHER DISCLOSURES

Management has utilized the Grants Section Auditors Report and The Cash Management Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.